

CITY OF LAKIN, KANSAS

**FINANCIAL STATEMENT
with
INDEPENDENT AUDITOR'S REPORT
and
OMB CIRCULAR A-133, SINGLE AUDIT REPORTS
YEAR ENDED DECEMBER 31, 2012**

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INDEPENDENT AUDITOR'S REPORT

The Honorable Mayor and City Council
City of Lakin, Kansas

We have audited the accompanying fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances of The City of Lakin, Kansas as of and for the year ended December 31, 2012 and the related notes to the financial statement.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of this financial statement in accordance with the Kansas Municipal Audit and Accounting Guide as described in Note A to meet the financial reporting requirements of the State of Kansas. Management is also responsible for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of the financial statement that is free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on the financial statement based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the Standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, and the *Kansas Municipal Audit and Accounting Guide*. Those standards require we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statement. The procedures selected depend on auditor's judgment, including the assessment of the risks of material misstatement of the financial statement, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statement in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statement.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles

As described in Note A of the financial statement, the financial statement is prepared by the City of Lakin, Kansas to meet the requirements of the State of Kansas on the basis of the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide, which is a basis of accounting other than accounting principles generally accepted in the United States of America.

The effects on the financial statement of the variances between the regulatory basis of accounting described in Note A and accounting principles generally accepted in the United States of America, although not reasonably determinable, are presumed to be material.

Adverse Opinion on U.S. Generally Accepted Accounting Principles

In our opinion, because of the significance of the matter discussed in the “Basis for Adverse Opinion on U.S. Generally Accepted Accounting Principles” paragraph, the financial statement referred to above does not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the City of Lakin, Kansas as of December 31, 2012, or changes in financial position and cash flows thereof for the year then ended.

Opinion on Regulatory Basis of Accounting

In our opinion, the financial statement referred to above presents fairly, in all material respects, the aggregate cash and unencumbered cash balances of the City of Lakin, Kansas as of December 31, 2012, and the aggregate receipts and expenditures for the year then ended in accordance with the financial reporting provisions of the Kansas Municipal Audit and Accounting Guide described in Note A.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have also issued our report dated February 13, 2013, on our consideration of the City of Lakin, Kansas’s internal control over financial reporting and on our test of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

Report on Supplementary Information

Our audit was conducted for the purpose of forming an opinion on the fund summary statement of regulatory basis receipts, expenditures, and unencumbered cash balances (basic financial statement) as a whole. The summary of regulatory basis expenditures-actual and budget, individual fund schedules of regulatory basis receipts and expenditures-actual and budget, (Schedules 1, 2, and 3 as listed in the table of contents) and schedule of expenditures of federal awards, as required by the United States Office of Management and Budget Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations, are presented for analysis and are not a required part of the basic financial statement, however are required to be presented under the provisions of the Kansas Municipal Audit and Accounting Guide. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statement. The information has been subjected to the auditing procedures applied in the audit of the basic financial statement and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statement or to the basic financial statement itself, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the basic financial statement as a whole, on the basis of accounting described in Note A.

The 2011 Actual columns presented in the individual fund schedules of cash receipts and expenditures-actual and budget, (Schedule 2 as listed in the table of contents) are also presented for comparative analysis and are not a required part of the 2011 financial statements upon which we rendered an unqualified opinion dated March 7, 2012. The 2011 financial statements and our accompanying report are not presented herein, but are available in electronic form from the web site of the Kansas Department of Administration, Office of Management and Analysis and Standards at the following link <http://da.ks.gov/ar/muniserv/>. Such 2011 comparative information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the 2011 financial statements. The 2011 comparative information was subjected to the auditing procedures applied in the audit of the 2011 financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the 2011 financial statements or to the 2011 financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the 2011 comparative information is fairly stated in all material respects in relation to the 2011 financial statements as a whole.

Kennedy McKee & Company LLP

February 13, 2013

CITY OF LAKIN, KANSAS

SUMMARY STATEMENT OF RECEIPTS, EXPENDITURES AND UNENCUMBERED CASH REGULATORY BASIS

Year ended December 31, 2012

<u>Fund</u>	Beginning unencumbered cash balance (deficit)	Prior year canceled encumbrances	Cash receipts
General fund	\$ 329,881	\$ -	\$ 912,480
SPECIAL PURPOSE FUNDS:			
Employee benefits	87,669	-	178,913
Special street and highway	16,199	-	57,462
Special parks and recreation	8,589	-	1,097
Industrial levy	16,805	-	1,508
Nonbudgeted special purpose funds:			
Special equipment	44,931	-	-
Capital improvement	46,057	-	20,000
Insurance proceeds	-	-	18,030
Total special purpose funds	220,250	-	277,010
BOND AND INTEREST FUND:			
Bond and interest	81,914	-	14,459
BUSINESS FUNDS:			
Electric utility	746,414	-	2,079,976
Water utility	233,329	-	727,978
Refuse collection	110,076	-	130,093
Sewage disposal	100,072	-	119,295
Nonbudgeted business funds:			
Electric customer utility deposits	-	-	-
Electric reserve	1,000,000	-	-
Water debt service	32,964	-	108,611
Water treatment facility construction	(46,002)	-	3,573,066
USDA water bond project	-	-	4,380,217
USDA water bond cost of issuance	-	-	15,000
Refuse collection reserve	52,330	-	10,000
Sewage disposal pump deposit reserve	24,000	-	-
Sewage disposal debt service	242,866	-	281,871
Total business funds	2,496,049	-	11,426,107
RELATED MUNICIPAL ENTITY:			
Lakin Housing Authority:			
O'Loughlin	60,713	-	57,969
Westridge	109,829	-	94,374
Total related municipal entity	170,542	-	152,343
Total financial reporting entity	\$ 3,298,636	\$ -	\$ 12,782,399
Composition of cash balance:			
Cash on hand			
Petty cash account			
General checking account			
Money market account			
Super now account			
Certificates of deposit			
Related municipal entity			

Total cash

The notes to the financial statement are an integral part of this statement.

STATEMENT 1

Expenditures	Ending unencumbered cash balance (deficit)	Add encumbrances and accounts payable	Ending cash balance (deficit)
<u>\$ 867,841</u>	<u>\$ 374,520</u>	<u>\$ 40,512</u>	<u>\$ 415,032</u>
173,113	93,469	31	93,500
70,454	3,207	-	3,207
6,161	3,525	-	3,525
2,970	15,343	-	15,343
-	44,931	-	44,931
22,000	44,057	-	44,057
18,030	-	-	-
<u>292,728</u>	<u>204,532</u>	<u>31</u>	<u>204,563</u>
<u>15,706</u>	<u>80,667</u>	<u>-</u>	<u>80,667</u>
1,737,413	1,088,977	95,780	1,184,757
473,608	487,699	17,226	504,925
126,327	113,842	1,350	115,192
103,452	115,915	3,211	119,126
-	-	34,012	34,012
-	1,000,000	-	1,000,000
108,560	33,015	-	33,015
4,070,678	(543,614)	506,785	(36,829)
-	4,380,217	-	4,380,217
12,500	2,500	12,500	15,000
-	62,330	-	62,330
-	24,000	-	24,000
259,553	265,184	-	265,184
<u>6,892,091</u>	<u>7,030,065</u>	<u>670,864</u>	<u>7,700,929</u>
53,346	65,336	3,357	68,693
52,752	151,451	3,273	154,724
<u>106,098</u>	<u>216,787</u>	<u>6,630</u>	<u>223,417</u>
<u>\$ 8,174,464</u>	<u>\$ 7,906,571</u>	<u>\$ 718,037</u>	<u>\$ 8,624,608</u>
			\$ 100
			3,000
			1,126
			3,991,748
			4,395,217
			10,000
			<u>223,417</u>
			<u>\$ 8,624,608</u>

CITY OF LAKIN, KANSAS

NOTES TO FINANCIAL STATEMENT

December 31, 2012

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

1. Financial Reporting Entity

The City of Lakin is a municipal corporation governed by an elected mayor and an elected five-member council. The financial statement presents the City of Lakin and the Lakin Housing Authority. The Lakin Housing Authority is included in the City's reporting entity because it was established to benefit the city and/or its constituents.

Lakin Housing Authority. The City of Lakin operates the City's Housing Authority. The Lakin Housing Authority governing board is appointed by the City Council. Although the City does not have the authority to approve or modify the Housing Authority's operational and capital budgets, and the Housing Authority has the authority to issue bonded debt, the City is fiscally responsible for the Housing Authority as it was created as an agent of the City. Complete financial records for the Housing Authority may be reviewed at the administrative offices of the entity at 207 N. Kearny Street, Lakin, KS 67860.

2. Regulatory Basis Fund Types

General fund - the chief operating fund. Used to account for all resources except those required to be accounted for in another fund.

Special Purpose fund – used to account for the proceeds of specific tax levies and other specific revenue sources (other than Capital Project and tax levies for long-term debt) that are intended for specified purposes.

Bond and Interest fund – used to account for the accumulation of resources, including tax levies, transfers from other funds and payment of general long-term debt.

Business fund – funds financed in whole or in part by fees charged to users of the goods or services.

3. Regulatory Basis of Accounting and Departure from Accounting Principles Generally Accepted in the United States of America

The Kansas Municipal Audit and Accounting Guide (KMAAG) regulatory basis of accounting involves the recognition of cash, cash equivalents, marketable investments, and certain accounts payable and encumbrance obligations to arrive at a net unencumbered cash and investments balance on a regulatory basis for each fund, and the reporting of changes in unencumbered cash and investments of a fund resulting from the difference in regulatory basis revenues and regulatory basis expenditures for the fiscal year. All recognized assets and liabilities are measured and reported at cost, unless they have been permanently impaired and have no future cash value or represent no future obligation against cash. The KMAAG regulatory basis does not recognize capital assets, long-term debt, accrued receivables and payables, or any other assets, liabilities or deferred inflows or outflows other than those mentioned above.

The City has approved a resolution that is in compliance with K.S.A. 75-1120a(c), waiving the requirement for application of generally accepted accounting principles and allowing the City to use the regulatory basis of accounting.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

4. Budgetary information

Kansas statutes require that an annual operating budget be legally adopted for the general fund, special purpose funds (unless specifically exempted by statute), bond and interest funds, and business funds. Although directory rather than mandatory, the statutes provide for the following sequence and timetable in the adoption of the legal annual operating budget:

1. Preparation of the budget for the succeeding calendar year on or before August 1st.
2. Publication in local newspaper on or before August 5th of the proposed budget and notice of public hearing on the budget.
3. Public hearing on or before August 15th, but at least ten days after publication of notice of hearing.
4. Adoption of the final budget on or before August 25th.

The statutes allow for the governing body to increase the originally adopted budget for previously unbudgeted increases in revenue other than ad valorem property taxes. To do this, a notice of public hearing to amend the budget must be published in the local newspaper. At least ten days after publication the hearing may be held and the governing body may amend the budget at that time. There were no such budget amendments for this year.

The statutes permit transferring budgeted amounts between line items within an individual fund. However, such statutes prohibit expenditures in excess of the total amount of the adopted budget of expenditures of individual funds. Budget comparison schedules are presented for each fund showing actual receipts and expenditures compared to legally budgeted receipts and expenditures.

All legal annual operating budgets are prepared using the regulatory basis of accounting, in which revenues are recognized when cash is received and expenditures include disbursements, accounts payable and encumbrances, with disbursements being adjusted for prior year's accounts payable and encumbrances. Encumbrances are commitments by the municipality for future payments and are supported by a document evidencing the commitment, such as a purchase order or contract. Any unused budgeted expenditure authority lapses at year-end.

A legal operating budget is not required for utility reserve funds and the following special purpose funds:

Special Equipment Fund
Capital Improvement Fund
Insurance Proceeds Fund

Spending in funds which are not subject to the legal annual operating budget requirement is controlled by federal regulations, other statutes, or by the use of internal spending limits established by the governing body.

A. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

5. Ad valorem tax revenue

The determination of assessed valuation and the collection of property taxes for all political subdivisions in the State of Kansas is the responsibility of the various counties. The County Appraiser's Office annually determines assessed valuation and the County Clerk spreads the annual assessment on the tax rolls. Taxes are levied by November 1 and a lien for all taxes attaches on that same date until the taxes are paid. One-half of the property taxes is due December 20 and distributed to the City by January 20, and the second half is due May 10 and distributed to the City by June 5. The City draws available funds from the County Treasurer's office at designated times throughout the year.

6. Special assessments

Projects financed in part by special assessments are financed through issuance of general obligation bonds of the City and are retired from the bond and interest fund. Special assessments paid prior to the issuance of bonds are recorded as revenue in the appropriate project. Special assessments received after the issuance of bonds are recorded as revenue in the Bond and Interest Fund.

B. DEPOSITS AND INVESTMENTS

K.S.A. 9-1401 establishes the depositories which may be used by the City. The statute requires banks eligible to hold the City's funds to have a main or branch bank in the county in which the City is located, or in an adjoining county if such institution has been designated as an official depository, and the banks to provide an acceptable rate of return on funds. In addition, K.S.A. 9-1402 requires the banks to pledge securities for deposits in excess of FDIC coverage. The City has no other policies that would further limit interest rate risk.

K.S.A. 12-1675 limits the City's investment of idle funds to time deposits, open accounts, and certificates of deposit with allowable financial institutions; U.S. government securities; temporary notes; no-fund warrants; repurchase agreements; and the Kansas Municipal Investment Pool. The City has no investment policy that would further limit its investment choices.

Custodial credit risk - deposits. Custodial credit risk is the risk that, in the event of a bank failure, the City's deposits may not be returned to it. State statutes require the City's deposits in financial institutions to be entirely covered by federal depository insurance or by collateral held under a joint custody receipt issued by a bank within the State of Kansas, the Federal Reserve Bank of Kansas City, or the Federal Home Loan Bank of Topeka, except during designated "peak periods" when required coverage is 50%. All deposits were legally secured at December 31, 2012.

At December 31, 2012 the carrying amount of the City's deposits, including certificates of deposit, was \$8,401,191 and the bank balance was \$8,404,329. Of the bank balance, \$262,508 was covered by federal depository insurance, and \$8,141,821 was collateralized with securities held by the pledging financial institutions agents in the City's name.

C. PENSION COSTS AND EMPLOYEE BENEFITS

1. Defined Benefit Pension Plan

Plan description. The City of Lakin, Kansas, contributes to the Kansas Public Employees Retirement System (KPERS), a cost-sharing multiple-employer defined benefit pension plan as provided by K.S.A. 74-4901, *et seq.* KPERS provides retirement benefits, life insurance, disability income benefits, and death benefits. Kansas law establishes and amends benefit provisions. KPERS issues a publicly available financial report that includes financial statements and required supplementary information. That report may be obtained by writing to KPERS (611 S. Kansas, Suite 100, Topeka, KS 66603), at the following website: <http://www.kpers.org/annualreport2012.pdf> or by calling 1-888-275-5737.

Funding Policy. K.S.A. 74-419 and 74-49,210 establish the KPERS member-employee contribution rates. Effective July 1, 2009 KPERS has two benefit structures and funding depends on whether the employee is a Tier 1 or Tier 2 member. Tier 1 members are active and contributing members hired before July 1, 2009. Tier 2 members were first employed in a covered position on or after July 1, 2009. Kansas law establishes the KPERS member-employee contribution rate at 4% of covered salary for Tier 1 members and at 6% of covered salary for Tier 2 members. The employer collects and remits member-employee contributions according to the provisions of Section 414(h) of the Internal Revenue Code. Kansas law provides that employer contribution rates be determined annually based on the results of an annual actuarial valuation. KPERS is funded on an actuarial reserve basis. Kansas law sets a limitation on annual increases in the employer contribution rates. The City of Lakin employer contributions to KPERS for the years ending December 31, 2012, 2011, and 2010 were \$67,003, \$60,522 and \$55,845, respectively, equal to the regulatory required contributions for each year as set forth by the legislature.

2. Other Employee Benefits

Vacation leave – Vacation leave is earned and credited according to a table in the employee handbook. Time is credited to the employee on a monthly basis, and begins at 80 hours per year for employees with 1 to 2 years employment, at 3 years it is increased to 88 hours, and eight hours is added each year thereafter until the maximum of 160 hours is earned after 12 years of employment. The vacation leave is credited in the month that it is earned, and is allowed to accumulate to 40 hours in excess of the amount earned in the year. Vacation is payable upon employee termination.

Sick leave – Full time employees earn 8 hours of sick leave for each month of service. Sick leave is credited on the first payroll of the month. Sick leave may be accumulated up to ninety days, but unused sick leave is not paid upon resignation or termination.

Section 125 Cafeteria Plan/Health Insurance - The City offers a Section 125 cafeteria plan for all employees electing to participate. The City uses this for health insurance premiums, unreimbursed medical and dependent care expense. Annually in January, each employee determines the amount of contribution to the plan for these expenses. The plan is administered by AFLAC.

Section 457 Deferred Compensation Plan - The City offers a Section 457 deferred compensation plan to all employees on a voluntary basis. The City does not contribute to the plan.

C. PENSION COSTS AND EMPLOYEE BENEFITS (CONTINUED)

3. Other Post Employment Benefits.

As provided by K.S.A. 12-5040, the City allows retirees to participate in the group health insurance plan. While each retiree pays the full amount of the applicable premium, conceptually, the City is subsidizing the retirees because each participant is charged a level premium regardless of age. However, the cost of this subsidy has not been quantified in the financial statement. This year the City had no retirees participating in the health insurance.

Under the Consolidated Omnibus Budget Reconciliation Act (COBRA), the City makes health care benefits available to eligible former employees and eligible dependents. Certain requirements are outlined by the federal government for this coverage. The premium is paid in full by the insured.

D. LONG-TERM DEBT

Changes in long-term liabilities for the City for the year ended December 31, 2012, were as follows:

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ payments</u>	<u>Balance end of year</u>	<u>Interest paid</u>
General obligation bonds:					
Street, water, and sewer improvement issued June 3, 2002 in the amount of \$130,000 at interest rates of 2.8 - 4.7% maturing September 1, 2012	\$ 15,000	\$ -	\$ 15,000	\$ -	\$ 706
Water improvement issued October 1, 1998 in the amount of \$1,215,000 at interest rates of 3.7 - 5.5% maturing September 1, 2013	205,000	-	100,000	105,000	8,560
Water Treatment - 2012A issued December 18, 2012 In the amount of \$3,129,000 at interest rate of 2.75% maturing December 18, 2052	-	3,129,000	-	3,129,000	-
Water Treatment - 2012B issued December 18, 2012 in the amount of \$1,266,000 at interest rate of 2.75% maturing December 18, 2052	-	1,266,000	-	1,266,000	-
Revolving loans:					
KDHE sewer lagoon expansion issued March 1, 2004 at interest rate of 2.76% including a .25% service fee Repayment established upon project completion	268,643	202,891	48,249	423,285	9,792
KDOT street paving loan issued April 2, 2007 at interest rate of 3.60% including a .25% service fee maturing August 1, 2017	371,430	-	57,083	314,347	13,371
KDHE water treatment plant issued April 26, 2012 in the amount of \$4,395,000 at interest rate of 3.50% including a .35% service fee Refinancing established upon project completion	464,383	3,573,066	100	4,037,349	18,021

D. LONG-TERM DEBT (CONTINUED)

<u>Issue</u>	<u>Balance beginning of year</u>	<u>Additions</u>	<u>Reductions/ payments</u>	<u>Balance end of year</u>	<u>Interest paid</u>
Capital leases:					
2009 Sterling dump truck issued November 20, 2008 in the amount of \$104,512 at interest rate of 3.625% maturing November 20, 2013	\$ 42,415	\$ -	\$ 21,717	\$ 20,698	\$ 1,196
2009 Johnston MX-450 Street Sweeper issued February 2, 2009 in the amount of \$113,500 at interest rate of 3.25% maturing February 3, 2014	51,452	-	23,298	28,154	1,327
2010 International 7400 truck and refuse service body issued January 27, 2010 in the amount of \$139,575 at interest rate of 3.10% maturing January 27, 2015	<u>88,636</u>	<u>-</u>	<u>27,807</u>	<u>60,829</u>	<u>2,394</u>
Total long-term debt	<u>\$1,506,959</u>	<u>\$8,170,957</u>	<u>\$ 293,254</u>	<u>\$9,384,662</u>	<u>\$ 55,367</u>

Current maturities of general obligation bonds and interest for the next five years and in five year increments through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2013	\$ 166,669	\$ 125,273	\$ 291,942
2014	63,364	119,167	182,531
2015	65,107	117,424	182,531
2016	66,581	115,634	182,215
2017	68,729	113,803	182,532
2018-2022	372,740	539,618	912,358
2023-2027	426,907	485,476	912,383
2028-2032	488,730	423,462	912,192
2033-2037	560,031	352,440	912,471
2038-2042	641,421	271,085	912,506
2043-2047	734,643	177,905	912,548
2048-2052	<u>845,078</u>	<u>71,179</u>	<u>916,257</u>
Total	<u>\$ 4,500,000</u>	<u>\$ 2,912,466</u>	<u>\$ 7,412,466</u>

D. LONG-TERM DEBT (CONTINUED)

Current maturities of the KDOT street paving loan for the next five years through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2013	\$ 59,138	\$ 11,317	\$ 70,455
2014	61,267	9,187	70,454
2015	63,473	6,982	70,455
2016	65,758	4,697	70,455
2017	<u>64,711</u>	<u>2,330</u>	<u>67,041</u>
Total	<u>\$ 314,347</u>	<u>\$ 34,513</u>	<u>\$ 348,860</u>

Current maturities of capital leases and interest for the next three years through maturity are as follows:

	<u>Principal due</u>	<u>Interest due</u>	<u>Total due</u>
2013	\$ 73,467	\$ 2,440	\$ 75,907
2014	33,704	601	34,305
2015	<u>2,510</u>	<u>7</u>	<u>2,517</u>
Total	<u>\$ 109,681</u>	<u>\$ 3,048</u>	<u>\$ 112,729</u>

E. INTERFUND TRANSFERS

Operating transfers were as follows:

<u>From</u>	<u>To</u>	<u>Regulatory authority</u>	<u>Amount</u>
Electric Utility	General Fund	K.S.A. 12-825d	\$ 100,000
Electric Utility	Capital Improvement	K.S.A. 12-825d	20,000
Water Utility	Water Debt Service	K.S.A. 12-825d	108,560
Refuse Collection Utility	Refuse Collection Reserve	K.S.A. 12-825d	<u>10,000</u>
			<u>\$ 238,560</u>

F. CONTINGENCIES

Starting in 2004 the City upgraded its wastewater facility. This project is funded by a State revolving loan of up to \$887,498 at 2.76% interest through the Kansas Department of Health and Environment. The project is complete except for issues with water quality standards for discharge. After consultation with the Kansas Department of Health and Environment, the loan will be left open until the issue is resolved in the event that additional expense is incurred.

In 2012 the City began construction on a reverse osmosis plant. This project is funded through USDA Rural Development grants General Obligation bonds of \$4,395,000 with a 3.50% interest rate. Temporary financing was provided by a Kansas Department of Health and Environment revolving loan.

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; natural disasters; and medical needs of employees. The City participates in a public entity risk pool to cover worker's compensation claims. The City purchases commercial insurance to cover property, liability and medical needs of employees. There have been no significant reductions in coverage from the prior year. Settled claims have not exceeded coverage in any of the past three years.

The City receives significant financial assistance from numerous federal and state governmental agencies in the form of grants and state pass-through aid. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and are subject to audit. Any disallowed claims resulting from such audits could become a liability of the General Fund or other applicable funds. However, in the opinion of management, any such disallowed claims will not have a material effect on the financial statement of the City at December 31, 2012.

G. CAPITAL PROJECTS

Capital project authorizations with approved change orders compared with cash disbursements and accounts payable from inception are as follows.

<u>Project</u>	<u>Project Authorization</u>	<u>Expenditures to Date</u>	<u>Remaining Authorization</u>
Water Treatment Facility			
BRB Contractors	\$ 5,662,002	\$ 3,899,309	\$ 1,762,693
Terracon	6,726	6,726	-
Kirkham & Michael	<u>907,550</u>	<u>707,635</u>	<u>199,915</u>
	<u>\$ 6,576,278</u>	<u>\$ 4,613,670</u>	<u>\$ 1,962,608</u>

H. SUBSEQUENT EVENTS

Management has evaluated subsequent events through February 13, 2013, the date on which the financial statement was available to be used. Management's evaluation concluded that there are no subsequent events that are required to be recognized or disclosed in this financial statement.

**REGULATORY – REQUIRED
SUPPLEMENTARY INFORMATION**

CITY OF LAKIN, KANSAS

SUMMARY OF EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

Year ended December 31, 2012

<u>Fund</u>	<u>Certified budget</u>	<u>Adjustment for qualifying budget credits</u>	<u>Total budget for comparison</u>	<u>Expenditures chargeable to current year</u>	<u>Variance favorable (unfavorable)</u>
General fund	\$ 1,094,898	\$ -	\$ 1,094,898	\$ 867,841	\$ 227,057
Special purpose funds:					
Employee benefits	225,000	-	225,000	173,113	51,887
Special street and highway	73,454	-	73,454	70,454	3,000
Special parks and recreation	8,500	-	8,500	6,161	2,339
Industrial levy	16,500	-	16,500	2,970	13,530
Bond and interest fund:					
Bond and interest	15,805	-	15,805	15,706	99
Business funds:					
Electric utility	2,056,598	-	2,056,598	1,737,413	319,185
Water utility	548,177	-	548,177	473,608	74,569
Refuse collection	183,930	-	183,930	126,327	57,603
Sewage disposal	123,400	-	123,400	103,452	19,948
Total	<u>\$ 4,346,262</u>	<u>\$ -</u>	<u>\$ 4,346,262</u>	<u>\$ 3,577,045</u>	<u>\$ 769,217</u>

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
	2012			Variance
	2011	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 184,326	\$ 182,753	\$ 180,610	\$ 2,143
Delinquent tax	2,318	5,885	945	4,940
Vehicle tax	28,133	40,448	44,135	(3,687)
Shared revenue:				
Local alcoholic liquor	1,638	1,097	800	297
Local sales tax	174,715	187,780	150,000	37,780
State connecting link	7,704	7,709	7,683	26
County park and pool aid	5,000	5,000	5,000	-
County highway maintenance	95,821	97,470	97,000	470
Recreation commission - golf	-	10,000	10,000	-
Recreation commission - pool	-	74,000	74,000	-
Recreation commission - park	-	5,000	5,000	-
Licenses, fees, fines and permits:				
Franchise fees	31,612	28,048	32,000	(3,952)
Fines and penalties	5,871	5,995	4,000	1,995
Animal control	2,778	2,541	2,500	41
Golf course fees	12,614	11,092	12,000	(908)
Golf course membership fees	33,762	34,000	34,000	-
Other licenses, fees, and permits	13,824	9,897	6,000	3,897
Interest:				
Interest on idle funds	1,546	1,100	2,000	(900)
Other:				
Gas well receipts	91,126	56,696	75,000	(18,304)
Rentals	5,371	6,266	5,000	1,266
Golf cart storage	7,928	14,432	8,000	6,432
Swimming pool receipts	15,215	18,505	14,000	4,505
Miscellaneous	4,056	6,766	-	6,766
Transfer from:				
Electric utility fund	100,000	100,000	100,000	-
Total cash receipts	825,358	912,480	\$ 869,673	\$ 42,807

CITY OF LAKIN, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
		2012		
	2011	Actual	Budget	Variance favorable (unfavorable)
Expenditures:				
General government:				
Administration:				
Personal services	\$ 86,707	\$ 96,321	\$ 92,880	\$ (3,441)
Contractual services	29,670	31,214	40,000	8,786
Commodities	7,287	3,648	4,600	952
Capital outlay	3,400	4,732	5,000	268
	127,064	135,915	142,480	6,565
Planning commission:				
Contractual services	25,420	27,552	25,712	(1,840)
Commodities	-	69	-	(69)
	25,420	27,621	25,712	(1,909)
Housing authority	3,356	3,078	3,500	422
Gas well maintenance	32,906	42,026	45,000	2,974
Tort liability	-	-	6,000	6,000
Highways and streets:				
Street department:				
Personal services	105,382	126,096	131,064	4,968
Contractual services	74,327	27,509	128,000	100,491
Commodities	45,143	36,668	63,000	26,332
Capital outlay	1,028	-	10,000	10,000
Debt service	45,486	47,538	47,538	-
	271,366	237,811	379,602	141,791
Culture and recreation:				
Park department:				
Personal services	26,638	26,023	24,000	(2,023)
Contractual services	8,108	9,062	13,000	3,938
Commodities	12,935	17,881	20,000	2,119
Capital outlay	3,084	12,000	14,000	2,000
	50,765	64,966	71,000	6,034

CITY OF LAKIN, KANSAS

GENERAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
	2012			Variance favorable (unfavorable)
	2011	Actual	Budget	
Swimming pool:				
Personal services	\$ 81,829	\$ 92,329	\$ 92,880	\$ 551
Contractual services	41,123	36,695	66,500	29,805
Commodities	23,436	26,505	35,000	8,495
Capital outlay	3,400	6,824	8,000	1,176
	149,788	162,353	202,380	40,027
Golf course:				
Personal services	70,733	86,575	77,400	(9,175)
Contractual services	51,186	46,605	49,000	2,395
Commodities	39,948	37,439	45,000	7,561
Capital outlay	-	-	8,000	8,000
	161,867	170,619	179,400	8,781
Public safety:				
Fire department:				
Contractual services	701	733	-	(733)
Animal control:				
Personal services	23,204	27,359	31,424	4,065
Contractual services	3,991	3,586	4,400	814
Commodities	3,892	5,124	4,000	(1,124)
	31,087	36,069	39,824	3,755
Reimbursed expenditures	(7,057)	(13,350)	-	13,350
Total expenditures	847,263	867,841	\$ 1,094,898	\$ 227,057
Receipts over (under) expenditures	(21,905)	44,639		
Unencumbered cash, beginning of year	351,786	329,881	\$ 225,225	\$ 104,656
Unencumbered cash, end of year	\$ 329,881	\$ 374,520		

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

EMPLOYEE BENEFITS FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
		2012		Variance
	2011	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 141,374	\$ 138,878	\$ 137,247	\$ 1,631
Delinquent tax	2,627	5,455	725	4,730
Vehicle tax	37,115	34,580	33,850	730
Total cash receipts	181,116	178,913	\$ 171,822	\$ 7,091
Expenditures:				
General government:				
Personal services	166,459	172,703	\$ 225,000	\$ 52,297
Contractual services	378	410	-	(410)
Total expenditures	166,837	173,113	\$ 225,000	\$ 51,887
Receipts over (under) expenditures	14,279	5,800		
Unencumbered cash, beginning of year	73,390	87,669	\$ 53,178	\$ 34,491
Unencumbered cash, end of year	\$ 87,669	\$ 93,469		

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

SPECIAL STREET AND HIGHWAY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Shared revenue	\$ 56,657	\$ 57,462	\$ 57,520	\$ (58)
Expenditures:				
Highways and streets:				
Contractual services	-	-	\$ 3,000	\$ 3,000
Debt service payments:				
Principal	55,100	57,083	57,083	-
Interest	15,355	13,371	13,371	-
Total expenditures	70,455	70,454	\$ 73,454	\$ 3,000
Receipts over (under) expenditures	(13,798)	(12,992)		
Unencumbered cash, beginning of year	29,997	16,199	\$ 16,333	\$ (134)
Unencumbered cash, end of year	\$ 16,199	\$ 3,207	\$ 399	\$ 2,808

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

SPECIAL PARKS AND RECREATION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
		2012		Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Shared revenue	\$ 1,335	\$ 1,097	<u>\$ 800</u>	<u>\$ 297</u>
Expenditures:				
Culture and recreation:				
Contractual services	<u>-</u>	<u>6,161</u>	<u>\$ 8,500</u>	<u>\$ 2,339</u>
Receipts over (under) expenditures	1,335	(5,064)		
Unencumbered cash, beginning of year	<u>7,254</u>	<u>8,589</u>	<u>\$ 8,054</u>	<u>\$ 535</u>
Unencumbered cash, end of year	<u>\$ 8,589</u>	<u>\$ 3,525</u>	<u>\$ 354</u>	<u>\$ 3,171</u>

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

INDUSTRIAL LEVY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 1,022	\$ 1,204	\$ 1,183	\$ 21
Delinquent tax	26	56	5	51
Vehicle tax	261	248	243	5
Total cash receipts	1,309	1,508	\$ 1,431	\$ 77
Expenditures:				
General government:				
Contractual services	2,765	2,970	\$ 16,500	\$ 13,530
Commodities	521	-	-	-
Total expenditures	3,286	2,970	\$ 16,500	\$ 13,530
Receipts over (under) expenditures	(1,977)	(1,462)		
Unencumbered cash, beginning of year	18,782	16,805	\$ 15,069	\$ 1,736
Unencumbered cash, end of year	\$ 16,805	\$ 15,343		

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

ALL NON-BUDGETED SPECIAL PURPOSE FUNDS
 SCHEDULE OF RECEIPTS AND EXPENDITURES
 REGULATORY BASIS

Year ended December 31, 2012

	<u>Special equipment</u>	<u>Capital improvement</u>	<u>Insurance proceeds</u>	<u>Total</u>
Cash receipts:				
Insurance proceeds	\$ -	\$ -	\$ 18,030	\$ 18,030
Transfer from electric utility fund	-	20,000	-	20,000
	<u>-</u>	<u>20,000</u>	<u>-</u>	<u>20,000</u>
Total cash receipts	-	20,000	18,030	38,030
Expenditures				
Contractual services	-	22,000	18,030	40,030
	<u>-</u>	<u>22,000</u>	<u>18,030</u>	<u>40,030</u>
Receipts over (under) expenditures	-	(2,000)	-	(2,000)
Unencumbered cash, beginning of year	44,931	46,057	-	90,988
	<u>44,931</u>	<u>46,057</u>	<u>-</u>	<u>90,988</u>
Unencumbered cash, end of year	\$ 44,931	\$ 44,057	\$ -	\$ 88,988
	<u>\$ 44,931</u>	<u>\$ 44,057</u>	<u>\$ -</u>	<u>\$ 88,988</u>

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

BOND AND INTEREST FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Taxes:				
Ad valorem property tax	\$ 11,990	\$ 14,459	\$ 10,442	\$ 4,017
Expenditures:				
Debt service payments:				
Principal	15,000	15,000	\$ 15,000	\$ -
Interest	1,396	706	705	(1)
Commission	-	-	100	100
Total expenditures	16,396	15,706	\$ 15,805	\$ 99
Receipts over (under) expenditures	(4,406)	(1,247)		
Unencumbered cash, beginning of year	86,320	81,914	\$ 80,726	\$ 1,188
Unencumbered cash, end of year	\$ 81,914	\$ 80,667	\$ 75,363	\$ 5,304

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

ELECTRIC UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Customer charges	\$ 2,145,605	\$ 2,076,692	\$ 2,150,000	\$ (73,308)
Interest	3,204	3,284	3,600	(316)
Total cash receipts	<u>2,148,809</u>	<u>2,079,976</u>	<u>\$ 2,153,600</u>	<u>\$ (73,624)</u>
Expenditures:				
Administration:				
Personal services	118,687	107,962	\$ 125,000	\$ 17,038
Contractual services	7,003	6,647	10,400	3,753
Commodities	1,717	1,454	2,500	1,046
Capital outlay	-	1,048	5,000	3,952
Reimbursed expense	(1,340)	(3,905)	-	3,905
Distribution:				
Personal services	130,248	138,444	139,000	556
Contractual services	86,113	79,159	89,000	9,841
Commodities	62,133	63,659	96,800	33,141
Capital outlay	-	-	100,000	100,000
Reimbursed expense	(33,081)	(39,161)	-	39,161
Production:				
Personal services	117,440	125,408	122,498	(2,910)
Contractual services	1,153,528	1,129,433	1,173,400	43,967
Commodities	17,222	12,119	63,000	50,881
Capital outlay	-	-	10,000	10,000
Reimbursed expense	(3,737)	(4,854)	-	4,854
Transfer to:				
Capital improvement fund	20,000	20,000	20,000	-
General fund	100,000	100,000	100,000	-
Electric reserve fund	25,000	-	-	-
Total expenditures	<u>1,800,933</u>	<u>1,737,413</u>	<u>\$ 2,056,598</u>	<u>\$ 319,185</u>
Receipts over (under) expenditures	347,876	342,563		
Unencumbered cash, beginning of year	<u>398,538</u>	<u>746,414</u>	<u>\$ 609,378</u>	<u>\$ 137,036</u>
Unencumbered cash, end of year	<u>\$ 746,414</u>	<u>\$ 1,088,977</u>	<u>\$ 706,380</u>	<u>\$ 382,597</u>

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

WATER UTILITY FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			Variance favorable (unfavorable)
	2011	Actual	Budget	
Cash receipts:				
Customer charges	\$ 459,166	\$ 723,364	\$ 415,000	\$ 308,364
Interest	425	468	500	(32)
Land earnings	4,111	4,111	4,000	111
Loan proceeds	-	35	-	35
Total cash receipts	463,702	727,978	\$ 419,500	\$ 308,478
Expenditures:				
Administration:				
Personal services	65,446	81,082	\$ 71,001	\$ (10,081)
Contractual services	4,257	4,173	5,000	827
Commodities	683	1,117	1,200	83
Capital outlay	-	-	2,000	2,000
Reimbursements	(2,188)	(2,853)	-	2,853
Distribution:				
Personal services	150,992	137,287	142,416	5,129
Contractual services	118,544	75,890	105,000	29,110
Commodities	49,064	76,855	48,000	(28,855)
Capital outlay	27,825	-	65,000	65,000
Reimbursed expense	(7,001)	(8,503)	-	8,503
Transfer to:				
Water debt service fund	96,000	108,560	108,560	-
Total expenditures	503,622	473,608	\$ 548,177	\$ 74,569
Receipts over (under) expenditures	(39,920)	254,370		
Unencumbered cash, beginning of year	273,249	233,329	\$ 142,289	\$ 91,040
Unencumbered cash, end of year	\$ 233,329	\$ 487,699	\$ 13,612	\$ 474,087

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

REFUSE COLLECTION FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
	2012			
	2011	Actual	Budget	Variance favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 130,878	\$ 129,798	\$ 130,000	\$ (202)
Interest	295	295	-	295
Total cash receipts	131,173	130,093	\$ 130,000	\$ 93
Expenditures:				
Distribution:				
Personal services	50,553	54,836	\$ 55,728	\$ 892
Contractual services	8,603	10,623	17,000	6,377
Commodities	28,018	23,865	40,000	16,135
Capital outlay	-	-	31,000	798
Reimbursed expense	(2,955)	(3,199)	-	3,199
Debt service:				
Capital lease payments	30,202	30,202	30,202	-
Transfer to refuse collection reserve fund	10,000	10,000	10,000	-
Total expenditures	124,421	126,327	\$ 183,930	\$ 27,401
Receipts over (under) expenditures	6,752	3,766		
Unencumbered cash, beginning of year	103,324	110,076	\$ 75,622	\$ 34,454
Unencumbered cash, end of year	\$ 110,076	\$ 113,842	\$ 21,692	\$ 92,150

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

SEWAGE DISPOSAL FUND

SCHEDULE OF RECEIPTS AND EXPENDITURES - ACTUAL AND BUDGET
REGULATORY BASIS

	Year ended December 31,			
	2012			Variance
	2011	Actual	Budget	favorable (unfavorable)
Cash receipts:				
Customer charges	\$ 119,720	\$ 118,768	\$ 120,000	\$ (1,232)
Interest	645	527	-	527
Total cash receipts	120,365	119,295	\$ 120,000	\$ (705)
Expenditures:				
Distribution:				
Personal services	42,665	62,928	\$ 70,000	\$ 7,072
Contractual services	25,802	30,723	35,000	4,277
Commodities	6,704	10,029	13,400	3,371
Capital outlay	1,600	-	5,000	5,000
Reimbursed expense	(44)	(228)	-	228
Total expenditures	76,727	103,452	\$ 123,400	\$ 19,948
Receipts over (under) expenditures	43,638	15,843		
Unencumbered cash, beginning of year	56,434	100,072	\$ 53,534	\$ 46,538
Unencumbered cash, end of year	\$ 100,072	\$ 115,915	\$ 50,134	\$ 65,781

See Independent Auditor's Report.

CITY OF LAKIN, KANSAS

ALL NON-BUDGETED BUSINESS FUNDS SCHEDULE OF RECEIPTS AND EXPENDITURES REGULATORY BASIS

Year ended December 31, 2012

	<u>Electric reserve</u>	<u>Water debt service</u>	<u>Water treatment facility construction</u>	<u>USDA water bond project</u>
Cash receipts:				
Interest	\$ -	\$ 51	\$ -	\$ 217
Surcharge	-	-	-	-
Bond and loan proceeds	-	-	3,573,066	4,380,000
Transfer from water utility fund	-	108,560	-	-
Transfer from refuse collection utility fund	-	-	-	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total cash receipts	<u>-</u>	<u>108,611</u>	<u>3,573,066</u>	<u>4,380,217</u>
Expenditures:				
Contractual services	-	-	4,052,557	-
Debt service payments:				
Principal	-	100,000	100	-
Interest and commission	-	8,560	18,021	-
	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Total expenditures	<u>-</u>	<u>108,560</u>	<u>4,070,678</u>	<u>-</u>
Receipts over (under) expenditures	-	51	(497,612)	4,380,217
Unencumbered cash (deficit), beginning of year	<u>1,000,000</u>	<u>32,964</u>	<u>(46,002)</u>	<u>-</u>
Unencumbered cash (deficit), end of year	<u>\$ 1,000,000</u>	<u>\$ 33,015</u>	<u>\$ (543,614)</u>	<u>\$ 4,380,217</u>

See Independent Auditor's Report.

SCHEDULE 2-12

<u>USDA water bond cost of issuance</u>	<u>Refuse collection reserve</u>	<u>Sewage disposal pump deposit reserve</u>	<u>Sewage disposal debt service</u>	<u>Total</u>
\$ -	\$ -	\$ -	\$ -	\$ 268
-	-	-	78,980	78,980
15,000	-	-	202,891	8,170,957
-	-	-	-	108,560
-	10,000	-	-	10,000
<u>15,000</u>	<u>10,000</u>	<u>-</u>	<u>281,871</u>	<u>8,368,765</u>
12,500	-	-	201,512	4,266,569
-	-	-	48,249	148,349
-	-	-	9,792	36,373
<u>12,500</u>	<u>-</u>	<u>-</u>	<u>259,553</u>	<u>4,451,291</u>
2,500	10,000	-	22,318	3,917,474
-	52,330	24,000	242,866	1,306,158
<u>\$ 2,500</u>	<u>\$ 62,330</u>	<u>\$ 24,000</u>	<u>\$ 265,184</u>	<u>\$ 5,223,632</u>

CITY OF LAKIN, KANSAS

LAKIN HOUSING AUTHORITY
RELATED MUNICIPAL ENTITYSCHEDULE OF RECEIPTS AND EXPENDITURES
REGULATORY BASIS

Year ended December 31, 2012

	<u>O'Loughlin</u>	<u>Westridge</u>	<u>Total</u>
Cash receipts:			
Rental Income	\$ 29,067	\$ 31,346	\$ 60,413
Rental assistance	20,773	58,620	79,393
Laundry income	601	1,801	2,402
Interest income	60	150	210
Interest subsidy	7,468	-	7,468
Miscellaneous	-	2,457	2,457
	<u>57,969</u>	<u>94,374</u>	<u>152,343</u>
Total cash receipts			
Expenditures and encumbrances:			
Repairs and maintenance	12,070	16,447	28,517
Payroll and payroll taxes	5,691	8,579	14,270
Management fees	452	792	1,244
Utilities	3,552	5,926	9,478
Insurance	11,115	15,747	26,862
Pest control	556	756	1,312
Supplies	1,470	2,818	4,288
Dues and subscriptions	179	-	179
Professional fees	-	317	317
Travel & entertainment	-	165	165
Debt service payments:			
Principal	6,014	-	6,014
Interest expense	8,666	-	8,666
Miscellaneous	3,581	1,205	4,786
	<u>53,346</u>	<u>52,752</u>	<u>106,098</u>
Total expenditures			
Receipts over (under) expenditures	4,623	41,622	46,245
Unencumbered cash, beginning of year	60,713	109,829	170,542
	<u>\$ 65,336</u>	<u>\$ 151,451</u>	<u>\$ 216,787</u>
Unencumbered cash, end of year			

See Independent Auditor's Report.

APPENDICES

CITY OF LAKIN, KANSAS

SCHEDULE OF EXPENDITURES OF FEDERAL AWARDS

Year ended December 31, 2012

<u>Federal grantor/ pass-through grantor/ program title</u>	<u>Federal CFDA number</u>	<u>Pass-through grantor's number</u>	<u>Expenditures</u>
U.S. Department of Agriculture Rural Development			
Direct program:			
Water and Waste Disposal Systems for Rural Communities Project Grants - ARRA	10.760	N/A	\$ 138,894
Water and Waste Disposal Systems for Rural Communities Direct Loans - ARRA	10.781	N/A	2,678,183
Water and Waste Disposal Systems for Rural Communities Direct Loans	10.781	N/A	1,266,000
			<hr/>
Total federal awards			<u><u>\$ 4,083,077</u></u>

Note: The Schedule of Expenditures of Federal Awards was prepared using the KMAAG Regulatory Basis of Accounting.

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**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN
AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE
WITH GOVERNMENT AUDITING STANDARDS**

The Honorable Mayor and City Council
City of Lakin, Kansas

Report on Compliance for Each Major Federal Program

We have audited, in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States, the financial statement of City of Lakin, Kansas as of and for the year ended December 31, 2012, and the related notes to the financial statement, and have issued our report thereon dated February 13, 2013. Our report on the financial statements disclosed that, as described in Note A to the financial statements, the City has prepared these financial statements in conformity with the accounting practices prescribed by the State of Kansas, which practices differ from accounting principles generally accepted in the United States of America.

Internal Control Over Financial Reporting

In planning and performing our audit of the financial statement, we considered City of Lakin, Kansas's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statement, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. *A material weakness* is a deficiency, or combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statement will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses, as defined above. However, material weaknesses may exist that have not been identified.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether City of Lakin, Kansas's financial statement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

Purpose of this Report

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

Kennedy McKee & Company LLP

February 13, 2013

Kennedy
McKee & Company LLP Certified Public Accountants

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**INDEPENDENT AUDITOR'S REPORT ON COMPLIANCE WITH REQUIREMENTS
THAT COULD HAVE A DIRECT AND MATERIAL EFFECT ON EACH
MAJOR PROGRAM AND ON INTERNAL CONTROL OVER COMPLIANCE IN
ACCORDANCE WITH OMB CIRCULAR A-133**

The Honorable Mayor and City Council
City of Lakin, Kansas

Compliance

We have audited City of Lakin, Kansas's compliance with the types of compliance requirements described in the *OMB Circular A-133 Compliance Supplement* that could have a direct and material effect on each of the City's major federal programs for the year ended December 31, 2012. The City's major federal programs are identified in the summary of auditor's results section of the accompanying schedule of findings and questioned costs.

Management's Responsibility

Management is responsible for compliance with the requirements of laws, regulations, contracts, and grants applicable to its federal programs.

Auditor's Responsibility

Our responsibility is to express an opinion on compliance for each of the City's major federal programs based on our audit of the types of compliance requirements referred to above. We conducted our audit of compliance in accordance with auditing standards generally accepted in the United States of America; the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States; and OMB Circular A-133, *Audits of States, Local Governments, and Non-Profit Organizations*. Those standards and OMB Circular A-133 require that we plan and perform the audit to obtain reasonable assurance about whether noncompliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances.

We believe that our audit provides a reasonable basis for our opinion on compliance for each major federal program. However, our audit does not provide a legal determination of the City's compliance.

Opinion on Each Major Federal Program

In our opinion, the City of Lakin, Kansas complied, in all material respects, with the types of compliance requirements referred to above that could have a direct and material effect on each of its major federal programs for the year ended December 31, 2012.

Report on Internal Control Over Compliance

Management of the City is responsible for establishing and maintaining effective internal control over compliance with the types of compliance requirements referred to above. In planning and performing our audit of compliance, we considered the City's internal control over compliance with the types of requirements that could have a direct and material effect on each major federal program to determine the auditing procedures that are appropriate in the circumstances for the purpose of expressing an opinion on compliance for each major federal program and to test and report on internal control over compliance in accordance with OMB Circular A-133, but not for the purpose of expressing an opinion on the effectiveness of internal control over compliance. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over compliance.

A deficiency in internal control over compliance exists when the design or operation of a control over compliance does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, noncompliance with a type of compliance requirement of a federal program on a timely basis. A *material weakness in internal control over compliance* is a deficiency, or combination of deficiencies, in internal control over compliance, such that there is a reasonable possibility that material noncompliance with a type of compliance requirement of a federal program will not be prevented, or detected and corrected, on a timely basis. A *significant deficiency in internal control over compliance* is a deficiency, or a combination of deficiencies, in internal control over compliance with a type of compliance requirement of a federal program that is less severe than a material weakness in internal control over compliance, yet important enough to merit attention by those charged with governance.

Our consideration of internal control over compliance was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over compliance that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. We did not identify any deficiencies in internal control over compliance that we consider to be material weaknesses.

The purpose of this report on internal control over compliance is solely to describe the scope of our testing of internal control over compliance and the results of that testing based on the requirements of OMB Circular A-133. Accordingly, this report is not suitable for any other purpose.

Report on Schedule of Federal Awards Required by OMB Circular A-133

We have audited the financial statements of the City of Lakin, Kansas as of and for the year ended December 31, 2012, and have issued our report thereon dated February 13, 2013, which contained an unmodified opinion on those financial statements. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The accompanying schedule of expenditures of federal awards is presented for purposes of additional analysis as required by OMB Circular A-133 and is not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the schedule of expenditure of federal awards is fairly stated in all material respects in relation to the financial statements as a whole.

Kennedy McKee & Company LLP
February 13, 2013

CITY OF LAKIN, KANSAS

SCHEDULE OF FINDINGS AND QUESTIONED COSTS

Year ended December 31, 2012

A. SUMMARY OF AUDITOR'S RESULTS

1. The auditor's report expresses an unqualified opinion on the financial statements of City of Lakin, Kansas.
2. There were no significant deficiencies disclosed during the audit of the financial statements and reported in the Report on Internal Control over Financial Reporting and on Compliance and other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*.
3. No instances of noncompliance material to the financial statements of City of Lakin, Kansas which would be required to be reported in accordance with *Government Auditing Standards* were disclosed during the audit.
4. No significant deficiencies relating to the audit of internal control over major federal programs were reported in the Independent Auditor's Report on Compliance with Requirements That Could Have a Direct and Material Effect on Each Major Program and on Internal Control over Compliance in Accordance with OMB Circular A-133.
5. The auditor's report on compliance for the major federal award programs for City of Lakin, Kansas expresses an unqualified opinion on all major federal programs.
6. Audit findings that are required to be reported in accordance with Section 501(a) of OMB Circular A-133 are reported in this Schedule.
7. The programs tested as major programs included:
 - Water and Waste Program Cluster:
 - Water and Waste Disposal Systems for Rural Communities Project Grants - ARRA (CFDA #10.760)
 - Water and Waste Disposal Systems for Rural Communities Direct Loans - ARRA (CFDA #10.781)
 - Water and Waste Disposal Systems for Rural Communities Direct Loans (CFDA #10.781)
8. The threshold for distinguishing Type A and B programs was \$300,000.
9. City of Lakin, Kansas did not qualify as a low-risk auditee.

B. FINDINGS - FINANCIAL STATEMENT AUDIT

None noted

C. FINDINGS AND QUESTIONED COSTS - MAJOR FEDERAL AWARD PROGRAMS

None noted

CITY OF LAKIN, KANSAS

SUMMARY SCHEDULE OF PRIOR AUDIT FINDINGS

Year ended December 31, 2012

FINDINGS AND QUESTIONED COSTS – MAJOR FEDERAL AWARD PROGRAMS

None relative to federal awards.